



SUNCREST

A D V I S O R S

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President, Suncrest Strategic Advisors, Inc.

Who We Are

Today, the Suncrest Advisors team includes *insurance professionals*, ESOP experts, financial planners, wealth advisors, attorneys, investment bankers, business brokers, lenders, captive insurance company experts, life settlement brokers, tax professionals, valuation professionals and others in their particular field of expertise.

Through one firm, you have access to independent professionals from various fields, all of whom have one thing in mind — to best serve your needs through a collaborative effort. As problem solvers by nature, we enjoy helping people who, like ourselves, have worked hard, achieved success, and want a secure future.

Many of our clients tell us that they recognize how much we care about their goals, and how comprehensive our services are. Our clients understand there are many potential pitfalls with life insurance and other financial strategies, and they value the expertise and advice we bring to the table. And as my team includes independent professionals, like myself, our clients can feel confident knowing that our independence provides them the very best in relevant advice.

About Boyce

Boyce Lowery is a 40-year veteran and established expert in the insurance industry. The owner of Suncrest Advisors, he aims to provide financial security and peace of mind. Along with more than four decades of experience, he is a Chartered Life Underwriter® and a Chartered Financial Consultant®.

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Life Insurance in the Business Market

- **Funded Buy-Sell Agreement**

- Entity Purchase
- Cross Purchase
- Hybrid Agreement
- Trusteed Cross Purchase
- Life Insurance LLC

Major Issues to Consider in a Buy-Sell Agreement

- 1) The Buy-Out Triggers
- 2) The Buyer
- 3) Valuation and Methodology
- 4) Terms of the Purchase
- 5) Tax Considerations

- **Personal Planning**

- Maximum Funded Life Insurance – Cash Accumulation, Tax Free Cash Flow
- Income Replacement, Debt Retirement, College Expenses, Special Needs, etc.
- Estate Planning

- **Collaterally Assigned Life Insurance** – to Meet Bank Requirements for Loans Outstanding

- **Key Person**

- Protect Business
- Reward Select Employees
 - Golden Handcuffs
 - Supplemental Executive Retirement Plan (SERP)
 - Executive Bonus or Double Executive Bonus
 - Various Forms of Deferred Compensation
 - Split Dollar
 - Endorsement Split Dollar – Economic Benefit Regime
 - Collateral Assignment – Loan Regime

- **Employee Stock Ownership Plan – ESOP**

- Bank Required Life Insurance
- Retirement of Seller Financing
- Repurchase Obligation Funding

- **Policy Audit**

- Ownership and Beneficiary Designations
- Competitive, Potential Better Options
- IRC Sec. 101(j)

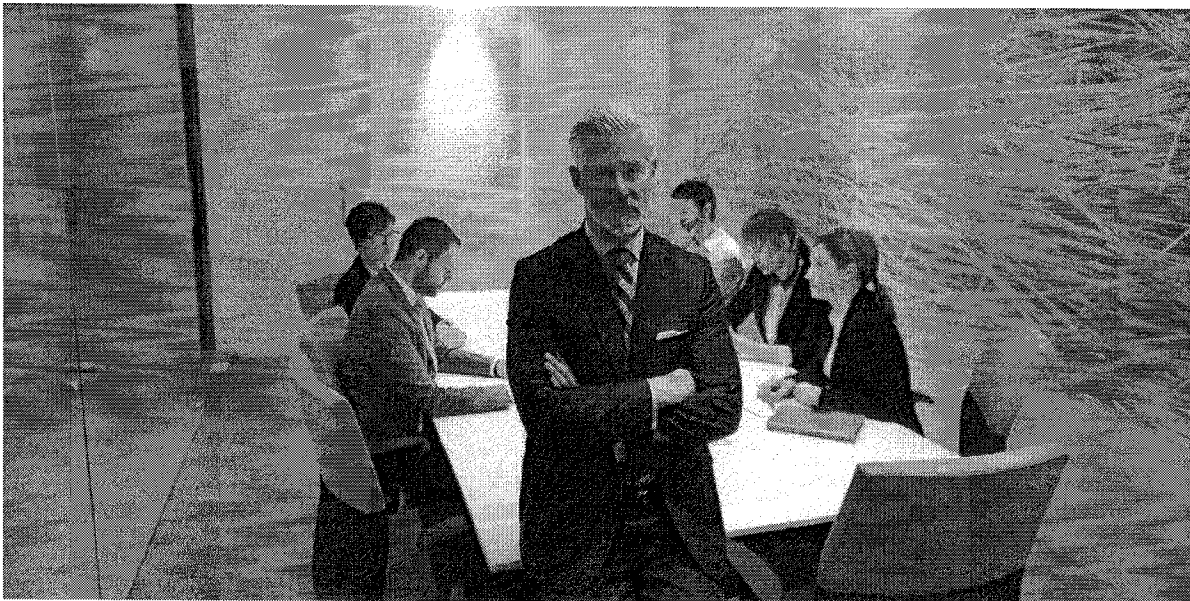
- **Group Whole Life** and **Tax Deductible Individual Whole Life** Where Applicable

- **Simplified Issue 10 year Involuntary Term Life** (only one qualifying question, no exam)

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Could An ESOP Be Your Exit Strategy?



By Boyce F. Lowery, CLU, ChFC

Whether you are looking to exit completely or just slow down, every responsible business owner needs an effective exit plan. There are a lot of things to take into consideration when strategizing your eventual departure, from ongoing leadership to valuation to taxes.

What if there was a way to step out of your business at your own pace while maintaining full control? What if there was a ready and willing market that will provide you full fair market value? What if you could defer capital gains taxes from the sale of your company stock indefinitely and turn your business into an income tax-exempt entity going forward?

You can! All of these things are possible with an Employee Stock Ownership Plan (ESOP).

What Is An Employee Stock Ownership Plan?

These plans were sanctioned by ERISA (the Employee Retirement Income Security Act) way back in 1974. An ESOP is a qualified defined contribution retirement plan where the assets of the plan are invested in the sponsoring company's stock.

ESOPs provide the opportunity for three very compelling tax benefits. First, they include a dollar for dollar deduction to the sponsoring company for the full purchase price of company stock from you, the selling shareholder. Second, when properly structured, all or any portion of the capital gains tax otherwise payable by the seller can be deferred indefinitely and even be completely eliminated if death of the seller occurs prior to proceeds of the sale having been disqualified from IRC Sec. 1042 capital gains protection. This is accomplished by meeting all the terms and conditions of IRC Sec. 1042, which stipulates the rules to gain the advantage of a tax free exchange of stock being sold through an ESOP transaction. By following the applicable rules, the stock of your company can be tax free exchanged for other stocks, bonds and/or notes of USA based companies

Third, a 100% ESOP owned company can be 100% free of federal income taxes and state income taxes as well in all but a few states.

With an ESOP, you get to maintain full control of the company until you have been fully paid. This is true even if the deal is structured to pay you in full or in part by a note payable over a number of years.

For your employees, an ESOP is a potentially terrific benefit for their eventual retirement as they will end up being the beneficial owners of the company with no out-of-pocket costs. This can have a positive effect on employees by creating an ownership culture which improves employee satisfaction and creates a more enjoyable workplace.

When is an ESOP a Good Fit?

ESOPs work best for companies that have:

- One or More Business Owners who desire partial or full liquidity
- 20 or more full time employees
- Business value of \$5,000,000 or more or net income of \$1,000,000 or more
- Five year history of profitable operations
- Strong second line management
- Good revenue and earnings history to help the company secure financing, if desired

If your company meets the above specifications, then an ESOP will probably work for the business. But will it work for you? It should if you would you like to:

- Immediately liquidate your holdings in the company
- Sell your stock over 5-10 years on a tax-free basis
- Diversify your holdings in the company on a tax-free basis while maintaining control of the company

- Gain a “second bite of the apple” after payment of the seller notes
- Improve business performance through equity incentives
- Share equity in the company with employees to attract, retain and reward your workforce

An ESOP Success Story – Construction Company

Background

- Work includes highway and bridge construction, overlay projects, water/ sewer construction, and sewage treatment plant construction
- C Corporation
- 4 shareholders
- Approximately 21 non-union employees
- Company value \$20,000,000

Goal

- Shareholders looking for an exit strategy over time
- Corporate tax relief
- Employee retention & motivation
- Maximize retirement benefits

Solution

- ESOP 1042 election to defer capital gains tax was not desirable
- Due to company specific circumstances, IRC 1202 tax treatment offered combined capital gains tax rate of 8.625%
- Establish an ESOP Trust
- All shareholders will sell 100% of their stock to the ESOP
- Sellers will receive cash and notes in exchange for selling their stock
- Warrants will be issued to selling shareholders
- Immediate S Corporation election

Benefit to Client

- Owners received \$600,000 cash at closing
- 12 year seller notes totaling \$19.4 million at a 4.5% interest rate (life of loan interest = approx. \$6.4 million)
- To reward/incentivize sellers for taking subordinated notes, shareholders received 800,000 warrants
- At the end of the seller note period the projected value of warrants is estimated to be \$7.9 million
- As a 100% S Corp ESOP owned company, 100% of future profit will not be taxed from that point forward
- Over the next 12 years the corporate tax savings are estimated to be over \$29 million
- Tax savings cover the entire cost of the stock sale and continue indefinitely

A Second ESOP Success Story – Consulting Firm

Background

- Business and litigation consulting firm
- Financial, accounting, regulatory, and engineering consulting services
- Offices in 7 states
- C Corporation with approximately 75 employees
- 4 shareholders plus 13 Incentive Share Participants
- Company value \$27,300,000

Goal

- Tax-free liquidity for shareholders
- Sale to Incentivize Share Participants
- Employee retention & motivation
- Corporate tax relief

Benefit to Client

- Owners received \$12,500,000 cash at closing for stock sale down payment
- 15 year seller notes totaling \$14,800,000 at 2.25% interest rate (life of loan interest = approx. \$2.7mm)
- At the end of the seller note period the projected value of warrants is estimated to be over \$12,000,000
- Sellers avoid \$8,900,000 in capital gains tax
- As a 100% S Corp ESOP owned company, 100% of future profit will not be taxed from that point forward
- Over the next 15 years the corporate tax savings are estimated to be over \$47,000,000

Solution

- Establish an ESOP
- All shareholders will sell 100% of their stock to the ESOP
- Company will borrow \$12,500,000 in senior debt
- Balance will be funded by seller notes with a low interest rate to lessen the burden on the Company
- Shareholders elect IRC 1042 to avoid/defer capital gains tax on stock sale
- Following year of stock sale Company will elect S Corp status
- Accelerated release of shares to participants to reward employees
- Employment agreements will be executed between the Company and 17 key personnel

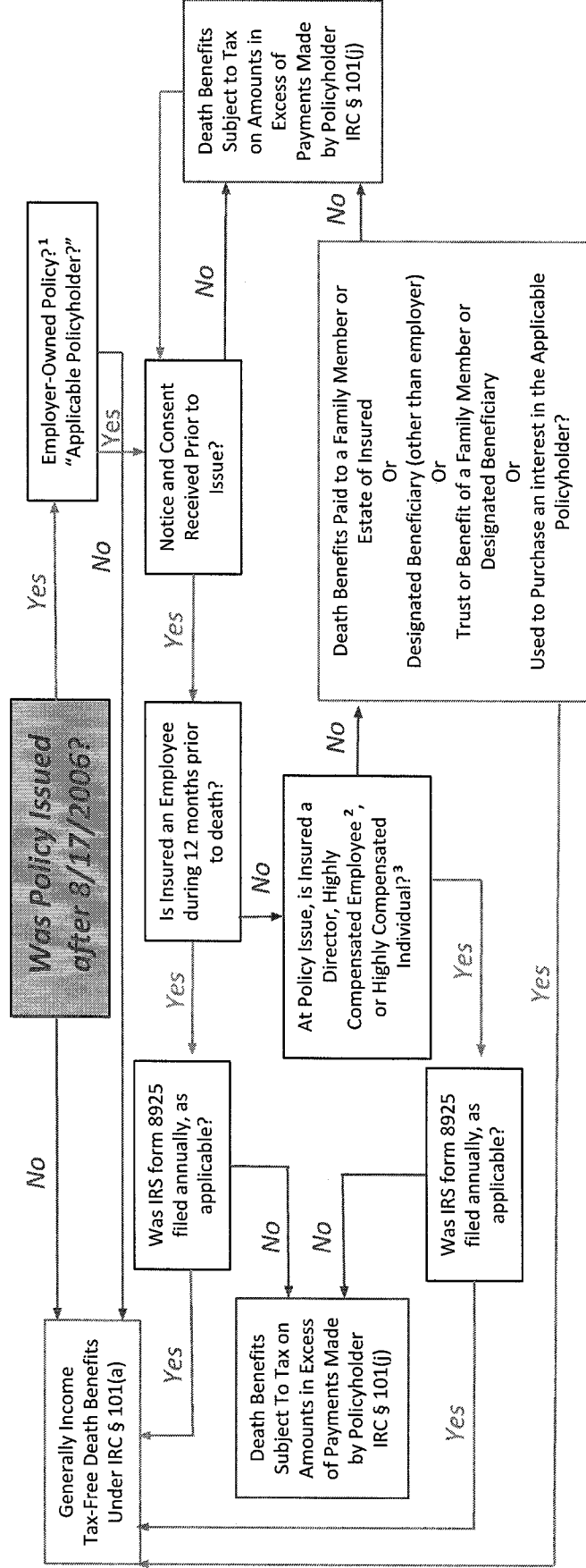
How I Can Help

I believe that ESOPs are a hidden gem for business owner exit planning. If you think an ESOP might be a good option for you and your company, give me a call at 888-827-0146. We can schedule a free and confidential consultation either over the phone or in person. I can answer any questions you may have and we can determine if an ESOP might be the exit strategy that you've been looking for.

About Boyce

Boyce Lowery is a 40-year veteran and established expert in the insurance industry. As the owner of Suncrest Advisors, he aims to provide financial security and peace of mind to business owners, executives and professionals, and high net worth individuals across the United States. Along with more than four decades of experience, he is a Chartered Life Underwriter® and a Chartered Financial Consultant®

Employer-Owned Life Insurance Contracts Post August 17, 2006 ¹



¹ The Pension Protection Act of 2006 defined an employer-owned life insurance contract as a policy owned by a person engaged in a trade or business (the "applicable policyholder") under which, such person or a "related person", is directly or indirectly a beneficiary, and where the insured is an employee of the trade or business of the applicable policyholder on the date the policy is issued. Applicable Policyholder includes a "related party", which is defined as a person that bears a relationship described under IRC § 267(b), the constructive ownership rules: IRC § 707(b)(1), dealing with the transactions between a partner and a partnership, and IRC § 52(a), (b), the common control rules applicable to corporations.

² As defined under IRC § 414(q), includes employees who were 5% owners of the business during the preceding year or had compensation in excess of a specified dollar amount.

³ As defined under IRC § 105(h)(5), includes the five highest-paid officers and those individuals among the highest paid 35% of all employees.

This material is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Suncrest Strategic Advisors, Inc., is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisor. Accordingly, any information in this document cannot be used by any taxpayer for purposes of avoiding penalties under the Internal Revenue Code. Life insurance is issued by a licensed insurance company.

Key Employee Benefit Plans

While business owners may want to reward the employees who are critical to their business, the solution will vary based on their business needs and what is most important. Some of the available solutions include variations of Executive Bonus, variations of Deferred Compensation and Split Dollar plans. The best solution will depend on a variety of considerations.

Key Consideration	Executive Bonus	Deferred Compensation	Split Dollar
Funded by	Employer	Employer and/or employee	Employer and/or employee
Policy owner	Employee or Trust	Employer or Rabbi Trust	Employer, employee or third party
Income tax deduction for the employer	Each year a contribution is made	Each year a benefit is paid	Only in unique situations
Cost recovery available to the employer	No	Yes	Yes
Written agreement required	No, unless there is a cash value restriction	Yes	Yes
Complexity of plan administration	None to low	Most complex	Moderate to complex
Subject to IRC 409A	No	Yes	Yes, if employer-owned
Subject to IRC 101(j)	No	Yes	Yes, if employer-owned
Contributions taxable to the employee	Yes	No	Depends on the ownership and structure
Can reduce employee's current adjusted gross income	No	Yes	No
Retirement benefits taxable to the employee	No	Yes	Depends on the ownership and structure
Employee's survivor benefits subject to income taxes	No	Yes	Depends on the ownership and structure
Benefits excluded from the employee's taxable estate	No	No	Depends on the ownership and structure